The daVinci Institute

Financial Report
With Supplemental Information

Year Ended June 30, 2008

Contents

Independent Auditors' Report

Board of Directors
The daVinci Institute
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The daVinci Institute, as of and for the year ended June 30, 2008, which collectively comprise The daVinci Institute's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The daVinci Institute's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The daVinci Institute as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2008, on our consideration of The daVinci Institute's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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Board of Directors
The daVinci Institute

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The daVinci Institute's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Willis & Jurasek P.C.

Willis & Jurasek, P.C.

October 1, 2008

The da Vinci Institute

Management's Discussion and Analysis
Year Ended June 30, 2008

As administration of The da Vinci Institute, County of Jackson, State of Michigan ("the Academy"), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by $1,171,921 (net assets). Of this amount, $489,538 (unrestricted net assets) may be used to meet the Academy's ongoing obligations to students and creditors.

- The Academy's total net assets increased by $128,235. The increase represents the degree to which increases in ongoing revenues exceeded similar increases in ongoing expenditures.

- The General Fund had a net change in fund balance of $30,096. At the end of the year, the total fund balance for the General Fund was $492,361 or 22.3 percent of the total General Fund expenditures and outgoing transfers.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the Academy's most significant funds – the General Fund and the non-major funds.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities – One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the Academy using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the Academy's goal is to provide services to our students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities present information about the following:

Governmental Activities – All of the Academy's basic services are considered to be governmental activities, including instruction, support services, community services and transfers to other local districts. Intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities.

These two statements report the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

The district-wide financial statements can be found on pages 1 and 2 of this report.

Reporting the Academy's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the Academy as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The Academy has only one type of fund, the governmental funds.

In the fund financial statements, capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

Governmental Funds – All of the Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the Academy's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information – The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 8 – 15 of this report.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net assets and changes in net assets of the Academy's governmental activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The da Vinci Institute

Management's Discussion and Analysis
Year Ended June 30, 2008

The following is a summary of the Academy's net assets as of June 30, 2008 and 2007:

	Governmental Activities	
Assets:	**2008**	**2007**
Current assets	$ 510,423	$ 473,747
Non-current assets	1,808,611	1,741,891
Total assets	2,319,034	2,215,638
Liabilities:		
Current liabilities	90,410	63,479
Non-current liabilities	1,056,703	1,108,473
Total liabilities	1,147,113	1,171,952
Net assets:		
Invested in capital assets – net of related debt	682,383	584,161
Unrestricted	489,538	459,525
Total net assets	$ 1,171,921	$ 1,043,686

The above analysis focuses on the net assets. The change in net assets of the Academy's governmental activities is discussed below. The net assets differ from fund balances and a reconciliation of such appears on page 4.

The Academy's restricted net assets reflect its investment in capital assets (i.e. land, buildings, and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the Academy's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance, of u*nrestricted* net assets, $489,538 may be used to meet the Academy's ongoing obligations to citizens, creditors and to meet student needs.

The following is a summary of the changes in net assets for the years ended June 30. 2008 and 2007:

	Governmental Activities	
	2008	**2007**
Revenues:		
Program revenues:		
Operating grants	$ 185,963	$ 164,517
General revenues:		
State of Michigan unrestricted State Aid	1,923,289	1,941,768
Interest and investment earnings	2,814	9,631
Other general revenues	124,198	83,037
Total general revenues	2,050,301	2,034,436
Total revenues	2,236,264	2,198,953
Functions/Program Expenses:		
Instruction	1,224,399	1,222,911
Support services	836,425	766,754
Community services	998	483
Interest on long-term debt	46,207	58,160
Total expenses	2,108,029	2,048,308
Changes in Net Assets	128,235	150,645
Net Assets – Beginning of Year	1,043,686	893,041
Net Assets – End of Year	$ 1,171,921	$ 1,043,686

The Academy's net assets increased by $128,235 during the current fiscal year. The increase in net assets differs from the change in fund balances and reconciliation appears on page 6.

Since unrestricted State Aid constitutes the vast majority of the Academy's operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

General Fund Budgeting and Operating Highlights

The Academy's budgets are prepared according to Michigan Law. The most significant budgeted fund was the General Fund.

During the fiscal year ended June 30, 2008, the Academy amended the budget of this major governmental fund as needed. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The General Fund actual revenues and other financing sources were $2,236,263. That amount is below the amended budget estimate of $2,320,181.

The actual expenditures and other financing uses of the General Fund were $2,206,188, which is below the amended budget estimate of $2,330,343.

The General Fund had total revenues of $2,236,264 and total expenditures and other financing uses of $2,206,168, with a net change in fund balance of $30,096 and an ending fund balance of $492,361.

There were no significant differences between the final budget and actual amounts.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2008, the Academy had $2,206,994 invested in land, buildings, furniture and equipment. On this amount, $398,383 in depreciation has been taken over the years. We currently have a net book value of $1,808,611.

	Governmental Activities	
	2008	2007
Land	$ 5,000	$ 5,000
Buildings	1,976,601	1,897,781
Site improvements	29,314	29,314
Furniture and equipment	196,079	156,366
Total capital assets	2,206,994	2,088,461
Less accumulated depreciation	398,383	346,570
Net capital assets	$ 1,808,611	$ 1,741,891

A physical addition to the High School, consisting of a class room and administrative offices increased the building asset value in 2007 and the remainder of the upgrades were completed during the 2008 year. The Academy also upgraded technology with a local grant in 2008.

Long-Term Debt – At June 30, 2008, the Academy had total debt outstanding of $1,126,228. The debt is for bonds through Citizen's Bank.

	Governmental Activities	
	2008	2007
Bonds	$ 1,108,473	$ 1,157,730
Capital Lease	17,755	-
Total	$ 1,126,228	$ 1,157,730

The Academy's total debt decreased by $31,502 during the current fiscal year.

Additional information on the Academy's long-term debt can be found in Note 7 on pages 13 - 14 of this report.

Economic Factors and Next Year's Budgets and Rates

On March 15, 1994, the electors of the State of Michigan approved a ballot proposition to amend the State Constitution of 1963, in part, to increase the State sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in order to reduce reliance on local property taxes for operating purposes and to equalize the per pupil finance resource disparities among school districts. The State aid package passed by the Legislature as part of the school finance reform legislation instituted a per pupil foundation guarantee beginning in fiscal year 1994-1995. In following years, the foundation guarantee may be adjusted by an index based upon the change in revenues to the State school aid fund and change in the total number of pupils statewide, and the spread between the high and low pupil guarantee will be reduced. The foundation guarantee consists of State school aid. The source of revenues for the State's contribution to the foundation allowance is derived from a mix of taxing sources, including but not limited to, a statewide property tax of six mills on all property (homestead and non-homestead), a State sales and use tax, a real estate transfer tax and a cigarette tax.

The following factors were considered in preparing the Academy's budgets for the 2008-2009 fiscal year:

- State aid membership based on an 80-20 percent blended count
- A freeze on capital expenditures
- No significant changes in student enrollment

Requests for Information

This financial report is designed to provide a general overview of The da Vinci Institute's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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The daVinci Institute
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets:	
Cash and investments	$ 136,004
Receivables:	
Due from other governmental units	374,688
Prepaid expenses	(269)
Capital assets less accumulated depreciation of $398,383	1,808,611
Total assets	2,319,034
Liabilities:	
Deferred income	7,500
Accrued interest	2,823
Other liabilities	10,562
Long-term liabilities:	
Other obligations, due within one year	69,525
Other obligations, due in more than one year	1,056,703
Total liabilities	1,147,113
Net Assets:	
Investment in capital assets - net of related debt	682,383
Unrestricted	489,538
Total net assets	$ 1,171,921

See Notes to Financial Statements.

The daVinci Institute
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants/ Contributions	Governmental Activities: Net (Expenses) Revenues and Change in Net Assets
Primary Government				
Governmental activities:				
Instruction	$ 1,224,399	$ -	$ 185,963	$ (1,038,436)
Support services	836,425	-	-	(836,425)
Community services	998	-	-	(998)
Interest on long-term debt	46,207	-	-	(46,207)
Total governmental activities	$ 2,108,029	$ -	$ 185,963	(1,922,066)
General revenues:				
State aid not restricted to specific purposes				1,923,289
Interest and investment earnings				2,814
Other				124,198
Total general revenues				2,050,301
Change in Net Assets				128,235
Net Assets - Beginning of Year				1,043,686
Net Assets - End of Year				$ 1,171,921

See Notes to Financial Statements.

The daVinci Institute
Balance Sheet
Governmental Funds
June 30, 2008

	General
Assets	
Cash	$ 136,004
Receivables:	
Due from other governmental units	374,688
Prepaid expenditures	(269)
Total assets	$ 510,423
Liabilities and Fund Balances	
Liabilities:	
Accrued expenditures	10,562
Deferred revenue	7,500
Total liabilities	18,062
Fund Balances:	
Unreserved:undesignated	492,361
Total fund balances	492,361
Total liabilities and fund balances	$ 510,423

See Notes to Financial Statements.

The daVinci Institute

Reconciliation of the Fund Balances of the Balance Sheet of Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets
Governmental Funds
June 30, 2008

Total Fund Balances - Governmental Funds		$ 492,361
Amount reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	$ 2,206,994	
Accumulated depreciation is	(398,383)	
		1,808,611
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Bonds		(1,126,228)
Accrued interest payable is not included as a liability in governmental activities.		(2,823)
Total Net Assets - Governmental Activities		$ 1,171,921

See Notes to Financial Statements.

The daVinci Institute
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General
Revenues:	
Local sources	$ 36,160
State sources	1,999,978
Federal sources	109,273
Interdistrict and other	90,853
Total revenues	2,236,264
Expenditures:	
Instruction	1,261,804
Support services	832,340
Community services	998
Debt service	111,026
Total expenditures	2,206,168
Net Changes in Fund Balances	30,096
Fund Balances - Beginning of Year	462,265
Fund Balances - End of Year	$ 492,361

See Notes to Financial Statements.

The daVinci Institute

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds		$ 30,096
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	$ (51,813)	
Capital outlay	118,533	
		66,720
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		(83)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.		
Capital lease proceeds	(33,400)	
Principal repayments	64,902	
		31,502
Change in Net Assets of Governmental Activities		$ 128,235

See Notes to Financial Statements.

The daVinci Institute
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Agency Fund - Student Activities
Assets:	
Cash and cash equivalents	$ 5,993
Total assets	$ 5,993
Liabilities:	
Due to student groups	$ 5,993
Total liabilities	$ 5,993

See Notes to Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of The daVinci Institute ("the Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

Reporting Entity

The Academy was established under the provisions of the State of Michigan as a Public School Academy. Public School Academies are formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy has contracted with Central Michigan University's Board of Trustees to charter a Public School Academy. The Academy operates under an appointed Board of Directors and provides education needs for grades K – 12.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on the application of the criteria, the Academy does not contain any component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide Statements (Continued) - As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures for claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major governmental funds:

General Fund – The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the Academy in a trustee capacity or as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Academy presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost. The Academy had no investments at year end.

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Deposits and Investments (Continued) - State statutes authorize the Academy to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Trade receivables are shown net of an allowance for uncollectible amounts. The Academy has determined the uncollectible amounts are immaterial and no provision has been recorded.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of $5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure type assets.

Buildings, equipment, and furniture are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Site improvements	50 years
Furniture and equipment	5-20 years

Note 1 – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Loan issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize loan issuance costs during the current period.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans that are subject to change.

When both restricted and unrestricted resources are available for use, it is the governments' policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplementary information section.

Note 2 – Stewardship, Compliance, and Accountability (Continued)

3. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

4. Formal budgetary integration is employed as a management control device during the year for the General Fund.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The Academy does not consider these amendments to be significant.

Note 3 – Deposits and Investments

At year-end, the Academy's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash	$ 136,004	$ 5,993	$ 141,997

The breakdown for deposits for the School Academy is as follows:

Deposits (checking and savings accounts)	$ 141,997

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. The School has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, $46,067 of the Academy's bank balance of $152,060 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Academy had no investments at year-end.

Note 4 – Receivables

Receivables at June 30, 2008, consist of the following:

Other governmental units (primarily Michigan Department of Education)	$ 374,688

Note 5 – Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Beginning Balance	Additions	Disposals and Adjustments	Year-End Balance
Assets not being depreciated – land	$ 5,000	$ -	$ -	$ 5,000
Capital assets being depreciated:				
Buildings and improvements	1,897,781	78,820	-	1,976,601
Site improvements	29,314	-	-	29,314
Furniture and equipment	156,366	39,713	-	196,079
Subtotal	2,083,461	118,533	-	2,201,994
Accumulated depreciation:				
Buildings and improvements	200,938	35,667	-	236,605
Site improvements	8,691	1,954	-	10,645
Furniture and equipment	136,941	14,192	-	151,133
Subtotal	346,570	51,813	-	398,383
Net capital assets being depreciated	1,736,891	66,720	-	1,803,611
Net capital assets	$ 1,741,891	$ 66,720	$ -	$ 1,808,611

Depreciation expense was charged to activities of the Academy as follows:

Governmental Activities:

Instruction	$ 47,728
Support	4,085
	$ 51,813

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bond	$ 794,841	$ -	$ 32,215	$ 762,626	$ 33,621
Bond	362,889	-	17,042	345,847	18,149
Capital lease	-	33,400	15,645	17,755	17,755
Total governmental activities	$1,157,730	$ 33,400	$ 64,902	$1,126,228	$ 69,525

Note 6 – Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental bond and loan obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	$ 69,525	$ 53,431	$ 122,956
2010	54,353	49,601	103,954
2011	57,069	46,884	103,953
2012	59,880	44,074	103,954
2013	62,925	41,028	103,953
2014 – 2018	365,354	154,415	519,769
2019 – 2023	386,269	56,806	443,075
2024 – 2025	70,853	1,815	72,668
Total	$1,126,228	$ 448,054	$1,574,282

Long-term debt consists of:

Bond – Citizens Bank; due in monthly installments of $5,467 including interest at 4.28%; adjustable every 5 years	$ 762,626
Bond – Citizens Bank; due in monthly installments of $3,196 including interest at 5.9%	345,847
Capital lease – Leaf Financial Corporation; due in monthly installments of $1,584 including interest at 12.72%	17,755
Total long-term debt	$1,126,228

Note 8 – Leases

The Academy leases land for the high school and administrative building from a local community college. The lease period is November 20, 2000 through November 19, 2030. The lease calls for annual payments over the thirty year period of $5 annually.

Note 9 – Federal and State Grants

The Academy has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The Academy participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit pension plan administered by the nine-member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees' Retirement System, P.O. Box 30026, Lansing, MI 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; and 4.35% of all wages over $15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for twelve months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, is refundable.

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007, and 16.72 percent effective October 1, 2007. The contribution requirements of plan members and the Academy are established and may be amended by the MPSERS Board of Trustees. The Academy's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were approximately $182,000, $162,000, and $6,200, respectively.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Post-Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the Academy's total contribution to the MPSERS plan discussed above.

Note 11 – Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors, and omissions. The Academy has purchased commercial insurance for general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Required Supplemental Information

The daVinci Institute
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2008

	General		
	Original Budget	Final Budget	Actual
Revenues:			
Local sources	$ 10,480	$ 40,689	$ 36,160
State sources	1,995,168	2,060,105	1,999,978
Federal sources	61,002	90,851	109,273
Other	5,750	128,536	90,853
Total revenues	2,072,400	2,320,181	2,236,264
Expenditures:			
Instruction	1,239,977	1,347,247	1,261,804
Support services	751,246	871,897	832,340
Community services	3,000	1,500	998
Debt service	109,699	109,699	111,026
Total expenditures	2,103,922	2,330,343	2,206,168
Net Changes in Fund Balances	(31,522)	(10,162)	30,096
Fund Balances - Beginning of Year	462,265	462,265	462,265
Fund Balances - End of Year	$ 430,743	$ 452,103	$ 492,361

Other Supplemental Information

The daVinci Institute
Schedule of Indebtedness
June 30, 2008

	Date of Issue	Amount of Issue	Interest Rate	Year of Maturity	Fiscal Year Interest Requirements	Amount of Annual Maturity	Balance Outstanding June 30, 2008
Bond - Citizens Bank	September 29, 2004	$ 876,013	4.28%	2009	$ 31,986	$ 33,621	$ 33,621
			4.28%	2010	30,518	35,089	35,089
			4.28%	2011	28,987	36,620	36,620
			4.28%	2012	27,388	38,219	38,219
			4.28%	2013	25,721	39,887	39,887
			4.28%	2014	23,979	41,629	41,629
			4.28%	2015	22,162	43,446	43,446
			4.28%	2016	20,265	45,341	45,341
			4.28%	2017	18,286	47,321	47,321
			4.28%	2018	16,222	49,387	49,387
			4.28%	2019	14,065	51,542	51,542
			4.28%	2020	11,815	53,792	53,792
			4.28%	2021	9,467	56,140	56,140
			4.28%	2022	7,017	58,591	58,591
			4.28%	2023	4,459	61,149	61,149
			4.28%	2024	1,790	63,817	63,817
			4.28%	2025	25	7,035	7,035
							$ 762,626

The daVinci Institute
Schedule of Indebtedness
June 30, 2008

		Amount of Issue	Interest Rate	Year of Maturity	Fiscal Year Interest Requirements	Amount of Annual Maturity	Balance Outstanding June 30, 2008
Bond - Citizens Bank	September 29, 2004	$ 362,889	5.90%	2009	$ 20,197	$ 18,149	$ 18,149
			5.90%	2010	19,083	19,264	19,264
			5.90%	2011	17,897	20,449	20,449
			5.90%	2012	16,686	21,661	21,661
			5.90%	2013	15,308	23,038	23,038
			5.90%	2014	13,892	24,455	24,455
			5.90%	2015	10,140	28,206	28,206
			5.90%	2016	13,069	25,278	25,278
			5.90%	2017	9,100	29,246	29,246
			5.90%	2018	7,301	31,046	31,046
			5.90%	2019	5,392	32,954	32,954
			5.90%	2020	3,375	34,972	34,972
			5.90%	2021	1,217	37,129	37,129
							$ 345,847

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with
Government Auditing Standards

Board of Directors
The daVinci Institute
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The daVinci Institute as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The daVinci Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control over financial reporting. We consider the deficiencies described as 2008-1 and 2008-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Board of Directors
The daVinci Institute
Jackson, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The daVinci Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of The daVinci Institute in a separate letter dated October 1, 2008.

The daVinci Institute's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 1, 2008

Board of Directors
The daVinci Institute
Jackson, Michigan

Schedule of Findings and Responses

Finding 2008-1

Currently, the Academy's staff prepares the interim internal financial statements that allows for management and oversight of the Academy, but relies on assistance from us in preparing the year-end financial statements and footnotes. The annual financial statements for the year ended June 30, 2008, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the year-end financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2008-2

Currently, the Business Manager prepares the checks and also prepares the bank reconciliation, with no one else reviewing the bank reconciliation. The Business Manager also prepares journal entries and there is no review or approval process for this function. We recommend someone outside the accounting department review the completed bank reconciliations and journal entries.

Client Response

We agree with this recommendation and will implement procedures to allow for review processes of the above mentioned functions.

October 1, 2008

Board of Education
The da Vinci Institute
Jackson, Michigan

We have audited the financial statements of The da Vinci Institute for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement proposal, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Willis & Jurasek, P.C.
2545 Spring Arbor Road
Suite 200
Jackson, MI 49203-3690

Phone Number: (517) 788-8660
Fax Number: (517) 788-9872
E-Mail: willis@willispc.com
Web site: www.willispc.com

- An asset appraisal was done for the prior year ended June 30, 2004, which was used to establish the bulk of your fixed asset balances to be recorded in the Statement of Net Assets.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process. Management has approved all adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

Currently, the Academy does not use employment contracts and pays most staff from July – June for the year beginning in September. We recommend the Board consider the use of contracts as a management tool for salaries and wages.

This information is intended solely for the use of the Board of Education and management of the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.